

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6698

BILL NUMBER: HB 1374

DATE PREPARED: Jan 8, 2002

BILL AMENDED:

SUBJECT: Insurance Fraud Division.

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FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State

Summary of Legislation: This bill creates the Insurance Fraud Division within the Office of the Attorney General to investigate and take action concerning suspected insurance fraud. The bill requires insurers and insurance professionals to report suspected insurance fraud. It also establishes the Insurance Fraud Investigation Fund.

Effective Date: July 1, 2002.

Explanation of State Expenditures: The bill establishes the Insurance Fraud Investigation Fund. The fund would be funded by assessments levied by the Office of the Attorney General on insurers based upon the insurer's share of premiums charged within Indiana. This fund is to pay the expenses of the new division, thus no new state appropriations are required.

The Office of the Attorney General Medicaid Fraud Division performs a similar function to the proposed Insurance Fraud Unit. The Medicaid unit has 24 employees and an annual budget of \$1.4 M (consisting of \$1.1 M in federal funds and \$320,000 state in dedicated funds).

Background:

This new Division would work in conjunction with the Department of Insurance and County Prosecutors offices. The services provided by the Division should help decrease the amount of time prosecutors spend investigating acts of insurance fraud. In addition, it is possible that more cases of fraud would be investigated due to the new fraud reporting requirement.

The insurance fraud bureaus of other states may be used as a model and point of reference. Texas and Massachusetts have similar insurance fraud investigative units. The Texas Fraud Unit employs 18 peace officers: 15 investigators, one non-commissioned investigator, and two criminal analysts. For FY 2001 this unit received 3,049 fraud complaints, opened 264 cases, and referred 156 cases for prosecution. Sixty-two

of the cases resulted in convictions with \$4,733,630 in restitution and \$23,150 in fines.

The Massachusetts Insurance Fraud Bureau is larger in staff than the Texas fraud unit. This bureau employs 42 staff, 32 of whom are investigators. The budget was \$5.3 M in 2000. The bureau received 3,349 fraud complaints, closed 2,084 investigations, and completed 293 prosecutions leading to 368 convictions in 2000.

The Indiana Office of the Attorney General has 286 appropriated full-time positions for FY 2002. As of December 10, 2001, there were 30 full-time positions vacant. The breakdown of the 30 vacancies by position type is as follows: 4 secretaries, 1 office manager, 1 administrative assistant, 17 field investigators, 1 field auditor, 1 welfare investigator, 2 departmental counsels, 1 attorney, 1 unclassified E7, and 1 unclassified E5. The Office of the Attorney General reverted \$499,566 from its operating account at the end of FY 2000. Based upon the Massachusetts and Texas examples, the number of current vacancies could be used to staff the new Insurance Fraud Division.

Explanation of State Revenues: The Office of Attorney General will collect funds from assessments levied against insurers doing business in Indiana. The amount of these assessments depend upon the funding requirement of the new division.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Office of Attorney General.

Local Agencies Affected:

Information Sources: Greg Thomas, Chief Deputy Commissioner, Department of Insurance, (317) 232-2406; BudSTARS; Vacancy Report, December 10, 2001; *Manning Table*, December 10, 2001; Texas Department of Insurance, Fraud Unit, <http://www.tdi.state.tx.us/fraud/indexf.html>, Texas Department of Insurance, Annual Fraud Statistics, <http://www.tdi.state.tx.us/fraud/stats2000.html>; Massachusetts Insurance Fraud Bureau, Current Statistics, <http://www.ifb.org/STATS/Statistics/mainframe.htm>; Massachusetts Insurance Fraud Bureau, Annual Report, <http://www.ifb.org/Annual%20Report%202000/mainframe.htm>